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ARIZONA CORPORATION COMMISSION

April 11, 2017

Arizona Corporation Commission

DOCKETED

APR 11 2017

DOCKETED BY
GB

RE: APS Rate Case, Docket Nos. E-01345A-16-0123; E-01345A-16-0036

Dear Parties and Stakeholders:

Attached are questions I have regarding the proposed APS Settlement Agreement in this case.

Although the questions are specifically directed to APS, RUCO, Commission Staff and EFCA, the last section specifically asks the other parties to respond to any questions you believe are applicable and/or to which you believe your responses would be beneficial to the Commission.

If you have already provided answers to any of these questions in your testimony, please provide a citation to where the answers can be located. Please also identify which witness is most suited to answer each of these questions at the hearing if follow-up is required.

Please file your responses in this docket by April 18, 2017. I look forward to reviewing them.

Sincerely,

Robert L. Burns
Commissioner

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Questions for APS:

Section II calls for a rate case stay-out until June 1, 2019. That is less than two years from the requested date for new rates. APS's last rate case also had a stay-out requirement and APS stayed out longer than the requirement in that last case.

- Does APS truly believe that if this Settlement Agreement is approved with no modifications, that APS would be filing its next rate case prior to June 1, 2019, without the Section II provision? If yes, please explain why.
- Why should the Commission not require APS to refrain from filing its next rate case until no earlier than June 1, 2020, with a test year no earlier than December 31, 2019, with new rates from that rate case not becoming effective earlier than July 1, 2021?

APS's application requested a net base rate increase of \$165.9 million. The Settlement Agreement results in a net base rate increase of \$94.624 million (paragraph 3.1).

- Why did APS agree to a net base rate increase of over \$71 million less than requested in its application?
- Does APS believe that \$71 million is an insignificant amount?
- Does APS believe that its rate application request for a \$165.9 million net base rate increase was inflated?

Settlement Agreements are a result of give and take (see paragraph 40.1).

- What did APS receive in this Settlement Agreement for giving up over \$71 million in net base rate revenue that APS would not have received without this Settlement Agreement? Please explain in detail.

Paragraph 3.4 requires APS to impute net revenue growth for any revenue producing plant included in post-test year plant.

- Did APS meet this requirement in the application and in the settlement in this current rate case? If no, please explain in detail why not.
- Is this requirement not something that should be done as common practice? If no, please explain why not in detail. If yes, please explain in detail why common practice (*i.e.*, common sense) is something that should be stated as a requirement in this Settlement Agreement.

Paragraph 4.1 states that the average bill increase for residential customers will be 4.54%.

- Please explain in detail how this average was obtained/calculated.
- What does this average increase mean in relation to customer usage, *i.e.*, how does this relate to a customer that uses 800kWh per month equally throughout the day as opposed to one that uses 800kWh but mostly between 3:00pm and 8:00pm?

Please provide a table of example residential bills based on different customer usage. This table should include usage amounts beginning at zero and ending with the maximum usage showing the bills at each 10% increment of the percentage of customer bills for the three most widely used

residential rate plans (for a total of 36 bills). This table should compare the bills under existing rates and those rates contemplated in the first year in the Settlement Agreement. Assume customers choose the new rate plan that is most like their existing rate plan.

Paragraph 4.2 states that \$15 million of DSMAC will be refunded during the first year of new rates. Please provide the same table requested above, with the same customers, but for year 2 (i.e., after DSMAC refund ends) of new rates contemplated by the Settlement Agreement.

Section V of the Settlement Agreement deals with Cost of Capital.

- Does APS believe that equity is higher cost than debt?
- Why is there nothing in this Settlement Agreement calling for APS to move to a capital structure that is closer to 50/50?
- All other things remaining unchanged, what would the net base rate increase be in this Settlement Agreement if a hypothetical capital structure of 50/50 was used in this case?

Paragraph 5.3 calls for a 0.8% return on the fair value increment.

- Does APS believe that the Commission is legally required to give APS a return (i.e., something greater than zero) on the fair value increment? If yes, please explain in detail.
- Does APS believe that it would be illegal for the Commission to find that it considered the fair value increment and in doing so, that it agrees with Staff witness Parcell that the fair value increment is not investor supplied capital and therefore should be granted a zero return on the fair value increment? If yes, please explain in detail.
- All other things remaining unchanged, what would the net base rate increase be in the Settlement Agreement if the return on the fair value increment is zero, 0.1%, 0.3%, 0.5% and 0.7%?
- What overall rate of return on the original cost rate base results from the operating income agreed to in the Settlement Agreement?
- While recognizing no fair value increment in the capital structure or rate base and using a capital structure comprised of 55.8% equity and 44.2% debt at 5.13%, what cost of equity provides the same operating income as the Settlement Agreement?

Section VII of the Settlement Agreement deals with the Fuel and Power Supply Adjustor ("PSA"). The APS application requested that the cost of water be included in the PSA. There is no mention of including water costs in the Settlement Agreement.

- Does this mean the cost of water is excluded from the PSA?

Paragraph 7.2 allows the inclusion of costs for lime, ammonia and sulfur in the PSA.

- Are these costs currently allowed? If no, why not? If yes, why is paragraph 7.2 needed?

Paragraph 7.3 permits the inclusion of third-party storage expenses.

- Would APS be opposed to making the required filing 180 days prior instead of 90 days prior to any contract becoming effective?

- If the 90-day provision is approved by the Commission, could the third-party storage expenses be included without Commission approval? If not, why is any time-frame for filing required?

Paragraph 9.1 allows APS to file for an increase in rates for environmental equipment installed at Four Corners. The filing date for this could be as late as January 1, 2019, while APS could file its next rate case as early as June 1, 2019, only five months later.

- Why would it not be better (especially from a workload perspective for all involved) for the Commission to eliminate paragraph 9.1 and instead just review these costs in APS's next rate case?

Paragraph 9.3 states that parties will work to have the rates from the filing in paragraph 9.1 become effective by January 1, 2019.

- How will that be possible, when paragraph 9.1 states that APS can file its request for such a rate increase on the same date, *i.e.*, no later than January 1, 2019?

Paragraph X allows for the deferral of costs related to the Ocotillo Modernization Project ("OMP"). APS would be allowed to request recovery of these costs, plus interest, in its next rate case.

- Why does the Settlement Agreement not treat the Selective Catalytic Reduction deferred costs (see Section IX) at Four Corners in the same manner as the deferred costs of the OMP?

Section XI deals with deferred costs related to changes in APS's property tax rate.

- Is this section exactly the same or different than the similar issue contained in APS's last rate case? If different in any way, please explain the differences in detail.

Section XII deals with the cost of service study. Please explain the purpose of having Section XII in the Settlement Agreement. The explanation should contain a detailed discussion of the benefits and drawbacks of having the requirements of Section XII in the Settlement Agreement for each of the customer classes listed below.

- a. Low income residential customers
- b. Typical residential customers
- c. Small commercial customers
- d. Medium size commercial customers
- e. Large commercial customers

In Section XIV, would APS be opposed to adding an additional paragraph as follows:

14.3 APS shall report on and discuss its workforce planning at the Commission's annual Summer Preparedness Workshop, beginning in 2018. Such a requirement shall remain in effect until further notice by the Commission.

Please explain in detail the purpose of the Self-Build Moratorium contained in Section XV.

Section XVI discusses the establishment of a Tax Expense Adjustor Mechanism.

- Does APS expect any Federal income tax reform legislation to increase or decrease APS's annual Federal income tax expense?

For each rate listed in Section XVII, please discuss whether each is a new rate or a modification of an existing rate.

For each rate listed in Section XVII, please explain in detail how APS will advise and educate its customers of these rates.

Paragraphs 17.5 and 17.6 discuss Rate Schedules R-2 and R-3, respectively. Both R-2 and R-3 are described as "three-part" rates.

- Does "three-part" refer to a basic service charge, a kWh usage charge and a kW demand charge? If yes, please explain in detail how customers will be educated on these two rate schedules, especially regarding the kW demand charge.

In paragraph 17.7, the #(2) phrase seems confusing; perhaps a word or words word is missing.

In the piece of paragraph a. contained at the top of Page 19 of 32, there appears to be punctuation missing.

In paragraph 17.8:

- Would APS be opposed to having the on-peak periods be 4:00pm to 7:00pm; 3:30pm to 7:30pm; 3:00pm to 7:00pm; 4:00pm to 8:00pm? If yes, please explain in detail APS's opposition to each set of hours.
- If the Commission were to mandate one of the above set of hours, which one would APS prefer ("none" is not an acceptable answer)?
- Please rank the above set of hours from least desirable to most desirable to APS.
- In APS's existing time-of-use rate plans, what are the excluded holidays?
- How did APS consider seasonal time-of-use rates in the Settlement Agreement? Are they included in it? Please explain why or why not.

Please explain in detail how Section XVIII will result in distributed generation customers being treated differently than they would have been treated without this section, thereby having these customers treated as contemplated per the outcome of the Value of Solar docket.

Paragraph 18.3 sets the export energy rate for year one. Paragraph 18.4 states that this year-one export energy rate was a result of settlement negotiations.

- How and when will the export energy rate for years two, three, four and five be set?

- Please provide estimates of what the export energy rates will be for years two, three, four and five will be.

Section XIX delineates the availability of certain rates for APS's customers. Paragraphs 1.5.1 and 26.1 mention a customer education plan, information and outreach.

- Does APS currently have this education/information plan to adequately and properly explain all of APS's rate options to its customers?
- If no, why not? If no, would APS be opposed to creating such a customer education/information plan and submitting such a plan to the Commission for Commission approval, prior to implementing any of the provisions of paragraph 19.1?
- If APS does have such a plan, would APS be opposed to submitting such a plan to the Commission for Commission approval, prior to implementing any of the provisions of paragraph 19.1?
- After May 1, 2018, it appears new customers will be required to choose a time-of-use ("TOU") or three-part demand rate ("Demand Rate") and will be required to remain on this rate for at least 90 days, i.e., three billing periods. Is that correct? If yes, please explain in detail how this requirement is fair and beneficial to new customers?
- If after May 1, 2018, new customers are required to choose a TOU or Demand Rate and remain on this rate for 90 days, would APS be opposed to refunding (after the 90-day period) each such customer the amount of money collected by APS that was in excess of what APS would have collected had the customer been on the typical non-TOU or non-Demand Rate, i.e., basic two-part rate? Please explain why in detail.

Paragraph 23.3 has a phrase stating "At APS's option..."

- With this statement, how can the Commission and APS customers be assured that all customers will be treated equally and fairly by APS?

Section XXVI relates to the effective date of new rates from this case. It seems that this Settlement Agreement would result in quite a few new rate options for customers.

- Would APS be opposed to having the effective date of new rates in this case being the first day of the month following the month in which the Commission-approved customer education/information plan (see discussion of Section XIX above) was sent to all APS customers?
- Would APS be opposed to the Commission requiring APS to send that information to customers prior to the tenth day of the month? If yes, please explain in detail APS's opposition and how the Commission not requiring this would be beneficial and fair to APS customers.

In paragraph 28.4 APS defines moderate and low income customers.

- For 2016, what was the median Arizona household income?
- For 2016, what was the federal poverty level?

Paragraph 32.1 states that the LFCR opt-out rate option approved in the last decision will be removed. Why was it removed?

Paragraph 32.2 states that for customers on a demand rate, the LFCR charge will be based on the customers' demand. Please provide examples for each of the customers below showing how each of their bills may be affected by this provision:

- a. Low demand customer
- b. Medium demand customer
- c. High demand customer

Please explain why residential customers on a demand rate should be subject to the LFCR charge.

Please explain in detail how Commission approval of this Settlement Agreement may be beneficial for each of the customer classes listed below:

- a. Low income residential customers
- b. Typical residential customers
- c. Small commercial customers
- d. Medium size commercial customers
- e. Large commercial customers

Please explain in detail how Commission approval of this Settlement Agreement may be detrimental for each of the customer classes listed below:

- a. Low income residential customers
- b. Typical residential customers
- c. Small commercial customers
- d. Medium size commercial customers
- e. Large commercial customers

Please explain in detail how the Commission not approving this Settlement Agreement but instead having this case be fully litigated may be beneficial for each of the customer classes listed below:

- a. Low income residential customers
- b. Typical residential customers
- c. Small commercial customers
- d. Medium size commercial customers
- e. Large commercial customers

Please explain in detail how the Commission not approving this Settlement Agreement but instead having this case be fully litigated may be detrimental for each of the customer classes listed below:

- a. Low income residential customers
- b. Typical residential customers
- c. Small commercial customers
- d. Medium size commercial customers
- e. Large commercial customers

In APS's application for this case, APS requested approval of three-part demand rates that would be mandatory for all customers. It seems that the Settlement Agreement does not contain any such mandatory rates for either existing or new customers (except for the 90-day requirement for new customers). Is this correct?

In APS's next rate case, does APS plan to again request mandatory three-part demand rates (if such rates are not approved by the Commission in this case)? If yes, would APS be opposed to having an ordering paragraph in the decision in this case that ordered APS to submit for Commission approval an education plan for such rates, with that plan being submitted at least 360 days prior to the submittal of APS's application for its next rate case? If yes, please explain in detail.

Please clarify qualification #2 in Appendix F, Page 1 of 6. Does it mean that the purchase of one primary on-site technology and the purchase of two secondary on-site technologies within 90 days, or does it mean two secondary on-site technologies already exist on the property and the customer purchases a primary on-site technology within 90 days, or does it mean something different?

Is APS completely satisfied with all aspects of Appendix H? If no, please explain in detail.

APS advertises at sporting events, including the Arizona Diamondbacks baseball games, Phoenix Suns basketball games, on television, radio, billboards, etc.

- How much money did APS spend on advertising during the test year?
- How much money did APS spend on advertising during 2016?
- How does APS define what qualifies as advertising expenditures?
- Are any of the advertising expenses being recovered through the rates approved in this case? If yes, please explain in detail how much and why APS customers should pay for such advertising through their rates.

Please provide all meter expenses, including meter reading and maintenance from 2010-2016.

What are the current rules and restrictions on selling individual or aggregated customer data information to third parties? Does APS sell individual or aggregated customer data to third parties? If yes, what were the revenues received during the test year and in 2016 and what are the projected

revenues associated with selling this information in the future? If not, is APS considering selling individual or aggregated customer data to third parties? Does APS consider these above-the-line or below-the-line revenues?

What revenues has APS received from its association with HomeServe? Were these revenues accounted for during the test year and in 2016? If no, why not? If yes, does APS consider these above-the-line or below-the-line revenues?

Questions for RUCO:

Section II calls for a rate case stay-out until June 1, 2019. That is less than 2 years from the requested date for new rates. The last rate case also had a stay-out provision and APS stayed out even longer than the requirement.

- Does RUCO truly believe that if this Settlement Agreement is approved with no modifications, that APS would be filing its next rate case prior to June 1, 2019, without the Section II provision? If yes, please explain why.
- Why should the Commission not require APS to refrain from filing its next rate case until no earlier than June 1, 2020, with a test year no earlier than December 31, 2019, with new rates from that rate case not becoming effective earlier than July 1, 2021?

RUCO's direct testimony recommended a net base rate decrease of \$24.6 million. The Settlement Agreement results in a net base rate increase of \$94.624 million (paragraph 3.1).

- Why did RUCO agree to a net base rate increase of over \$119.2 million greater than recommended in its direct testimony?
- Does RUCO believe that its net base rate decrease recommendation contained in its direct testimony was flawed?

Settlement Agreements are a result of give and take (see paragraph 40.1).

- What did RUCO receive in this Settlement Agreement for agreeing to a net base rate increase that is \$119.2 million greater than it recommended in its direct testimony that RUCO would not have received without this Settlement Agreement? Please explain in detail.

Paragraph 3.4 requires APS to impute net revenue growth for any revenue producing plant included in post-test year plant.

- Did APS meet this requirement in this current rate case? If no, please explain in detail why not.
- Is this requirement not something that should be done just as common practice? If no, please explain in detail why not. If yes, please explain in detail why common practice (i.e., common sense) is something that should be stated as a requirement in this Settlement Agreement.

Paragraph 4.1 states that the average bill increase for residential customers will be 4.54%.

Please explain in detail how this average was obtained/calculated.

- What does this average increase mean in relation to customer usage, i.e., how does this relate to a customer that uses 800kWh per month equally throughout the day as opposed to one that uses 800kWh but mostly between 3:00pm and 8:00pm?

Please provide a table of example residential bills based on different customer usage. This table should include usage amounts beginning at zero and ending with the maximum usage showing the bills at each 10% increment of the percentage of customer bills for the most widely used residential rate plans (for a total of 36 bills). This table should compare the bills under existing rates and those rates contemplated in the first year in the Settlement Agreement. Assume customers choose the new rate plan that is most like their existing rate plan.

Paragraph 4.2 states that \$15 million of DSMAC will be refunded during the first year of new rates. Please provide the same table requested above, with the same customers, but for year 2 (i.e., after DSMAC refund ends) of new rates contemplated by the Settlement Agreement.

Section V of the Settlement Agreement deals with Cost of Capital.

- Does RUCO believe that equity is higher cost than debt?
- Why is there nothing in this Settlement Agreement calling for APS to move to a capital structure that is closer to 50/50?
- All other things remaining unchanged, what would the net base rate increase be in this Settlement Agreement if a hypothetical capital structure of 50/50 is used in this case?

Paragraph 5.2 establishes a return on equity ("ROE") of 10.0%. In its direct testimony, RUCO recommended an ROE of 9.42%.

- Why did RUCO agree to a higher ROE than it recommended in its direct testimony?
- Does RUCO believe that the ROE recommended in its direct testimony was flawed?

Paragraph 5.3 calls for a 0.8% return on the fair value increment.

- Does RUCO believe that the Commission is legally required to give APS a return (i.e., something greater than zero) on the fair value increment? If yes, please explain in detail.
- Does RUCO believe that it would be illegal for the Commission to find that it considered the fair value increment and in doing so, that it agrees with Staff witness Parcell that the fair value increment is not investor supplied capital and therefore should be granted a zero return on the fair value increment? If yes, please explain in detail.
- All other things remaining unchanged, what would the net base rate increase be in the Settlement Agreement if the return on the fair value increment is zero, 0.1%, 0.3%, 0.5% and 0.7%?
- What overall rate of return on the original cost rate base results from the operating income agreed to in the Settlement Agreement?
- While recognizing no fair value increment in the capital structure or rate base and using a capital structure comprised of 55.8% equity and 44.2% debt at 5.13%, what cost of equity provides the same operating income as the Settlement Agreement?
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- Would RUCO be opposed to making the required filing 180 days prior instead of 90 days prior to any contract becoming effective?
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- Why would it not be better, especially from a workload perspective for all involved, for the Commission to eliminate paragraph 9.1 and instead just review these costs in APS's next rate case?

In its direct testimony, RUCO was opposed to allowing these costs for Four Corners.

- Why is RUCO now not opposed to these costs?

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- a. Low income residential customers
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In Section XIV, would RUCO be opposed to adding an additional paragraph as follows:

14.3 APS shall report on and discuss its workforce planning at the Commission's annual Summer Preparedness Workshop, beginning in 2018. Such a requirement shall remain in effect until further notice by the Commission.

Please explain in detail the purpose of the Self-Build Moratorium contained in Section XV.

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- Does RUCO expect any Federal income tax reform legislation to increase or decrease APS's annual Federal income tax expense?

For each rate listed in Section XVII, please discuss whether each is a totally new rate or a modification of an existing rate.

For each rate listed in Section XVII, please explain in detail how RUCO expects APS to advise and educate its customers of these rates.

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- Does "three-part" refer to a basic service charge, a kWh usage charge and a kW demand charge? If yes, please explain in detail how customers will be educated on these two rate schedules, especially regarding the kW demand charge.

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- If the Commission were to mandate one of the above set of hours, which one would RUCO prefer ("none" is not an acceptable answer)?
- Please rank the above set of hours from least desirable to most desirable to RUCO.
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Please explain in detail how Section XVIII will result in distributed generation customers being treated differently than they would have been treated without this section, thereby having these customers treated as contemplated per the outcome of the Value of Solar docket.

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- How and when will the export energy rate for years two, three, four and five be set?
- Does RUCO have any estimates as to what the export energy rates will be for years two, three, four and five? If yes, please provide them.

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- Does APS currently have this education/information plan to adequately and properly explain all of the APS rate options to its customers?
- If no, why not? If no, would RUCO be opposed to APS creating such a customer education/information plan and submitting such a plan to the Commission for Commission approval, prior to implementing any of the provisions of paragraph 19.1?
- If APS does have such a plan, would RUCO be opposed to APS submitting such a plan to the Commission for Commission approval, prior to implementing any of the provisions of paragraph 19.1?

After May 1, 2018, will new customers be required to choose a time-of-use ("TOU") rate or three-part demand rate ("Demand Rate") and be required to remain on this rate for at least 90 days, i.e., three billing periods? If yes, please explain in detail how this requirement is fair and beneficial to new customers?

If after May 1, 2018, new customers are required to choose a TOU or Demand Rate and remain on this rate for 90 days, would RUCO be opposed to APS refunding (after the 90-day period) to each such customer the amount of money collected by APS that was in excess of what APS would have collected had the customer been on the typical non-TOU or non-Demand Rate, i.e., basic two-part rate? If yes, please explain in detail why.

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- With this statement, how can the Commission and APS customers be assured that all customers will be treated equally and fairly by APS?

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- Would RUCO be opposed to the Commission's requiring APS to send that information to customers prior to the tenth day of the month? If yes, please explain in detail RUCO's opposition and how the Commission not requiring this would be beneficial and fair to APS customers.

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- For 2016, what was the median Arizona household income?
- For 2016, what was the federal poverty level?

Paragraph 32.1 states that the LFCR opt-out rate option approved in the last decision will be removed. Why was it removed?

Please explain why residential customers on a demand rate should be subject to the LFCR charge.

Paragraph 32.2 states that for customers on a demand rate, the LFCR charge will be based on the customers' demand. Please provide examples for each of the customers below showing how each of their bills may be affected by this provision:

- Low demand customer
- Medium demand customer
- High demand customer
 - In RUCO's direct testimony, RUCO was opposed to any modifications to the LFCR. Why is RUCO now not opposed to these modifications?
 - Does RUCO believe that its direct testimony LFCR recommendation was flawed?

Please explain in detail how Commission approval of this Settlement Agreement (especially when compared to all the contrary recommendations in RUCO's direct testimony; in particular RUCO's agreement to a \$94.624 million net base rate increase as opposed to RUCO's direct testimony recommendation for a \$24.6 million decrease) may be beneficial for each of the customer classes listed below:

- Low income residential customers
- Typical residential customers
- Small commercial customers
- Medium size commercial customers
- Large commercial customers

Please explain in detail how Commission approval of this Settlement Agreement (especially when compared to all the contrary recommendations in RUCO's direct testimony; in particular RUCO's

agreement to a \$94.624 million net base rate increase as opposed to RUCO's direct testimony recommendation for a \$24.6 million decrease) may be detrimental to each of the customer classes listed below:

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Please explain in detail how the Commission's not approving this Settlement Agreement (especially when compared to all the contrary recommendations in RUCO's direct testimony; in particular RUCO's agreement to a \$94.624 million net base rate increase as opposed to RUCO's direct testimony recommendation for a \$24.6 million decrease) but instead having this case be fully litigated may be beneficial for each of the customer classes listed below:

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In APS's next rate case, if APS plans to again request mandatory three-part demand rates (if such rates are not approved by the Commission in this case), would RUCO be opposed to having an ordering paragraph in the decision in this case that ordered APS to submit for Commission approval an education plan for such rates, with that plan being submitted at least 360 days prior to the submittal of APS's application for its next rate case? If yes, please explain in detail.

Is RUCO completely satisfied with all aspects of Appendix H? If no, please explain in detail.

Questions for Commission Staff:

Section II calls for a rate case stay-out until June 1, 2019. That is less than 2 years from the requested date for new rates. The last rate case also had a stay-out requirement and APS stayed out even longer than the requirement in that last case.

- Does Staff truly believe that if this Settlement Agreement is approved with no modifications, that APS would be filing its next rate case prior to June 1, 2019, without the Section II provision? If yes, please explain why.
- Why should the Commission not require APS to refrain from filing its next rate case until no earlier than June 1, 2020, with a test year no earlier than December 31, 2019, with new rates from that rate case not becoming effective earlier than July 1, 2021?

In its direct testimony, Staff recommended a zero increase (with an alternative recommendation of a \$26 million decrease). The Settlement Agreement results in a net base rate increase of \$94.624 million (paragraph 3.1).

- Why did Staff agree to a net base rate increase of over \$94 million greater than recommended in its direct testimony (\$120 million greater than the alternative)?
- Does Staff believe that its direct testimony recommendation for a zero increase (or alternative \$26 million net base rate decrease) was flawed?

Settlement Agreements are a result of give and take (see paragraph 40.1).

- What did Staff receive in this Settlement Agreement for agreeing to a \$94.624 million net base rate increase (as opposed to zero or a \$26 million decrease) that Staff would not have received without this Settlement Agreement? Please explain in detail.

Paragraph 3.4 requires APS to impute net revenue growth for any revenue producing plant included in post-test year plant.

- Did APS meet this requirement in this current rate case? If no, please explain in detail why not.
- Is this requirement not something that should be done just as common practice? If no, please explain in detail why not. If yes, please explain in detail why common practice (i.e., common sense) is something that should be stated as a requirement in this Settlement Agreement.

Paragraph 4.1 states that the average bill increase for residential customers will be 4.54%.

Please explain in detail how this average was obtained/calculated.

- What does this average increase mean in relation to customer usage, i.e., how does this relate to a customer that uses 800kWh per month equally throughout the day as opposed to one that uses 800kWh but mostly between 3:00pm and 8:00pm?

Please provide a table of example residential bills based on different customer usage. This table should include usage amounts beginning at zero and ending with the maximum usage showing the

bills at each 10% increment of the percentage of customer bills for the three most widely used residential rate plans (for a total of 36 bills). This table should compare the bills under existing rates and those rates contemplated in the first year in the Settlement Agreement. Assume customers choose the new rate plan that is most like their existing rate plan.

Paragraph 4.2 states that \$15 million of DSMAC will be refunded during the first year of new rates. Please provide the same table requested above, with the same customers, but for year 2 (i.e., after DSMAC refund ends) of new rates contemplated by the Settlement Agreement.

Section V of the Settlement Agreement deals with Cost of Capital.

- Does Staff believe that equity is higher cost than debt?
- Why is there nothing in this Settlement Agreement calling for APS to move to a capital structure that is closer to 50/50?
- All other things remaining unchanged, what would the net base rate increase be in this Settlement Agreement if a hypothetical capital structure of 50/50 is used in this case?

Paragraph 5.2 establishes a return on equity ("ROE") of 10.0%. In its direct testimony, Staff recommended an ROE of 9.35%.

- Why did Staff agree to a higher ROE than it recommended in its direct testimony?
- Does Staff believe that the ROE recommended in its direct testimony was flawed?

Paragraph 5.3 calls for a 0.8% return on the fair value increment.

- Does Staff believe that the Commission is legally required to give APS a return (i.e., something greater than zero) on the fair value increment? If yes, please explain in detail.
- Does Staff believe that it would be illegal for the Commission to find that it considered the fair value increment and that in doing so, that it agrees with Staff witness Parcell that the fair value increment is not investor supplied capital and therefore should be granted a zero return on the fair value increment? Please explain in detail.
- All other things remaining unchanged, what would the net base rate increase be in the Settlement Agreement if the return on the fair value increment is zero, 0.1%, 0.3%, 0.5% and 0.7%?
- What overall rate of return on the original cost rate base results from the operating income agreed to in the Settlement Agreement?
- While recognizing no fair value increment in the capital structure or rate base and using a capital structure comprised of 55.8% equity and 44.2% debt at 5.13%, what cost of equity provides the same operating income as the Settlement Agreement?

Section VII of the Settlement Agreement deals with the Fuel and Power Supply Adjustor ("PSA"). The APS application requested that the cost of water be included in the PSA. There is no mention of including water costs in the Settlement Agreement.

- Does this mean the cost of water is excluded from the PSA?

Paragraph 7.2 allows the inclusion of costs for lime, ammonia and sulfur in the PSA.

- Are these costs currently allowed? If no, why not? If yes, why is paragraph 7.2 needed?

Paragraph 7.3 permits the inclusion of third-party storage expenses.

- Would Staff be opposed to making the required filing 180 days prior instead of 90 days prior to any contract becoming effective?
- If the 90-day provision is approved by the Commission, could the third-party storage expenses be included without Commission approval? If not, why is any time-frame for filing required?

In its direct testimony, Staff was opposed to including third-party storage expenses at this time.

- What has changed since the Filing of Staff's direct testimony, that Staff is now not opposed to these costs?

Paragraph 9.1 allows APS to file for an increase in rates for environmental equipment installed at Four Corners. The filing date for this could be as late as January 1, 2019, while APS could file its next rate case as early as June 1, 2019, only five months later.

- Why would it not be better (especially from a workload perspective for all involved) for the Commission to eliminate paragraph 9.1 and instead just review these costs in APS's next rate case?

Paragraph 9.3 states that parties will work to have the rates from the filing in paragraph 9.1 become effective by January 1, 2019.

- How will that be possible, when paragraph 9.1 states that APS can file its request for such a rate increase on the same date, *i.e.*, no later than January 1, 2019?

Paragraph X allows for the deferral of costs related to the Ocotillo Modernization Project ("OMP"). APS would be allowed to request recovery of these costs, plus interest, in its next rate case.

- Why does the Settlement Agreement not treat the Selective Catalytic Reduction deferred costs (see Section IX) at Four Corners in the same manner as the deferred costs of the OMP?

In its direct testimony, Staff was opposed to including OMP costs at this time.

- What has changed since the Filing of Staff's direct testimony, that Staff is now not opposed to these costs?

Section XI deals with deferred costs related to changes in APS's property tax rate.

- Is this section exactly the same or different than the similar issue contained in APS's last rate case? If different in any way, please explain the difference(s) in detail.
- In its direct testimony, Staff was opposed to including these costs. Why is Staff now not opposed?
- Does Staff believe its direct testimony recommendation was flawed?

Section XII deals with the cost of service study. Please explain the purpose of having Section XII in the Settlement Agreement. The explanation should contain a detailed discussion of the benefits and drawbacks to each of the below customer classes of having the requirements of Section XII in the Settlement Agreement:

- a. Low income residential customers
- b. Typical residential customers
- c. Small commercial customers
- d. Medium size commercial customers
- e. Large commercial customers

In Section XIV, would Staff be opposed to adding an additional paragraph as follows:

- 14.3 APS shall report on and discuss its workforce planning at the Commission's annual Summer Preparedness Workshop, beginning in 2018. Such a requirement shall remain in effect until further notice by the Commission.

Please explain in detail the purpose of the Self-Build Moratorium contained in Section XV.

Section XVI discusses the establishment of a Tax Expense Adjustor Mechanism. Does Staff expect any Federal income tax reform legislation to increase or decrease APS's annual Federal income tax expense?

For each rate listed in Section XVII, please discuss whether each is a totally new rate or a modification of an existing rate.

For each rate listed in Section XVII, please explain in detail how APS will advise and educate its customers of these rates.

Paragraphs 17.5 and 17.6 discuss Rate Schedules R-2 and R-3, respectively. Both R-2 and R-3 are described as "three-part" rates.

Does "three-part" refer to a basic service charge, a kWh usage charge and a kW demand charge? If yes, please explain in detail how customers will be educated on these two rate schedules, especially regarding the kW demand charge.

In paragraph 17.7, the #(2) phrase seems confusing; possibly a word(s) missing.

In the piece of paragraph a. contained at the top of Page 19 of 32, there seems to be some punctuation missing.

In paragraph 17.8, would Staff be opposed to having the on-peak periods being 4:00pm to 7:00pm; 3:30pm to 7:30pm; 3:00pm to 7:00pm; 4:00pm to 8:00pm? If yes, please explain in detail Staff's opposition to each set of hours.

- If the Commission were to mandate one of the above set of hours, which one would Staff prefer ("none" is not an acceptable answer)?
- How did Staff consider seasonal time-of-use rates in the Settlement Agreement? Are they included in it? Please explain why or why not.

Please rank the above set of hours from least desirable to most desirable to Staff.

- In APS's existing time-of-use rate plans, what are the excluded holidays?

Please explain in detail how Section XVIII will result in distributed generation customers being treated differently than they would have been treated without this section, thereby having these customers treated as contemplated per the outcome of the Value of Solar docket.

Paragraph 18.3 sets the export energy rate for year one. Paragraph 18.4 states that this year-one export energy rate was a result of settlement negotiations.

- How and when will the export energy rate for years two, three, four and five be set?
- Does Staff have any estimates as to what the export energy rates will be for years two, three, four and five? If yes, please provide them.

Section XIX delineates the availability of certain rates for APS's customers. Paragraphs 1.5.1 and 26.1 mention a customer education plan, information and outreach.

- Does APS currently have this education/information plan to adequately and properly explain all the APS rate options to its customers?
- If no, why not? If no, would Staff be opposed to APS creating such a customer education/information plan and submitting such a plan to the Commission for Commission approval, prior to implementing any of the provisions of paragraph 19.1?
- If APS does have such a plan, would Staff be opposed to APS submitting such a plan to the Commission for Commission approval, prior to implementing any of the provisions of paragraph 19.1?

After May 1, 2018, will new customers be required to choose a time-of-use ("TOU") rate or three-part demand rate ("Demand Rate") and be required to remain on this rate for at least 90 days, i.e., three billing periods? If yes, please explain in detail how this requirement is fair and beneficial to new customers?

If after May 1, 2018, new customers are required to choose a TOU or Demand Rate and remain on this rate for 90 days, would Staff be opposed to APS refunding (after the 90-day period) to each such customer the amount of money collected by APS that was in excess of what APS would have collected had the customer been on the typical non-TOU or non-Demand Rate, i.e., basic two-part rate? If yes, please explain in detail why.

Paragraph 23.3 has a phrase stating "At APS's option...".

- With this statement, how can the Commission and APS customers be assured that all customers will be treated equally and fairly by APS?

Section XXVI relates to the effective date of new rates from this case. It seems that this Settlement Agreement would result in quite a few new rate options for customers.

- Would Staff be opposed to having the effective date of new rates in this case being the first day of the month following the month in which the Commission-approved customer education/information plan (see discussion of Section XIX above) was sent to all APS customers?
- Would Staff be opposed to the Commission's requiring APS to send that information to customers prior to the tenth day of the month? If yes, please explain in detail Staff's opposition and how the Commission's not requiring this would be beneficial and fair to APS customers.

In paragraph 28.4 APS defines moderate and low income customers.

- For 2016, what was the median Arizona household income?
- For 2016, what was the federal poverty level?

Paragraph 32.1 states that the LFCR opt-out rate option approved in the last decision will be removed. Why was it removed?

Please explain why residential customers on a demand rate should be subject to the LFCR charge.

Paragraph 32.2 states that for customers on a demand rate, the LFCR charge will be based on the customers' demand. Please provide examples for each of the customers below showing how each of their bills may be affected by this provision:

- Low demand customer
- Medium demand customer
- High demand customer

Please explain in detail how Commission approval of this Settlement Agreement (especially when compared to all the contrary recommendations in Staff's direct testimony; in particular Staff's agreement to a \$94.624 million net base rate increase as opposed to Staff's direct testimony recommendation of zero or \$26 million decrease) may be beneficial for each of the customer classes listed below:

- Low income residential customers
- Typical residential customers
- Small commercial customers
- Medium size commercial customers
- Large commercial customers

Please explain in detail how Commission approval of this Settlement Agreement (especially when compared to all the contrary recommendations in Staff's direct testimony; in particular Staff's agreement to a \$94.624 million net base rate increase as opposed to Staff's direct testimony recommendation of zero or \$26 million decrease) may be detrimental to each of the customer classes listed below:

- a. Low income residential customers
- b. Typical residential customers
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- e. Large commercial customers

Please explain in detail how the Commission not approving this Settlement Agreement (especially when compared to all the contrary recommendations in Staff's direct testimony; in particular Staff's agreement to a \$94.624 million net base rate increase as opposed to Staff's direct testimony recommendation of zero or \$26 million decrease) but instead having this case be fully litigated may be beneficial for each of the customer classes listed below:

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- a. Low income residential customers
- b. Typical residential customers
- c. Small commercial customers
- d. Medium size commercial customers

e. Large commercial customers

In APS's application for this case, APS requested approval of three-part demand rates that would be mandatory for all customers. It seems that the Settlement Agreement does not contain any such mandatory rates for either existing or new customers (except for the 90-day requirement for new customers). Is this correct?

In APS's next rate case, if APS plans to again request mandatory three-part demand rates (if such rates are not approved by the Commission in this case), would Staff be opposed to having an ordering paragraph in the decision in this case that ordered APS to submit for Commission approval an education plan for such rates, with that plan being submitted at least 360 days prior to the submittal of APS's application for its next rate case? If yes, please explain in detail.

Is Staff completely satisfied with all aspects of Appendix H? If no, please explain in detail.

Questions for EFCA:

In its direct testimony, EFCA recommended a \$107.5 million net base rate decrease. The Settlement Agreement results in a net base rate increase of \$94.624 million (paragraph 3.1).

Why did EFCA agree to a net base rate increase of over \$202 million greater than recommended in its direct testimony?

Does EFCA believe that \$202 million is a very significant amount of revenue?

Does EFCA believe that its direct testimony recommendation for a \$107.5 million net base rate decrease was flawed? Please discuss in detail.

Settlement Agreements are a result of give and take (see paragraph 40.1). What did EFCA receive in this Settlement Agreement for giving up on its recommendation for a \$107.5 million decrease in net base rate revenue that EFCA would not have received without this Settlement Agreement? Please explain in detail.

Paragraph 3.4 requires APS to impute net revenue growth for any revenue producing plant included in post-test year plant.

Did APS meet this requirement in this current rate case? If no, please explain in detail why not.

Is this requirement not something that should be done just as common practice? If no, please explain in detail why not. If yes, please explain in detail why common practice (i.e., common sense) is something that should be stated as a requirement in this Settlement Agreement.

Paragraph 4.1 states that the average bill increase for residential customers will be 4.54%.

Please explain in detail how this average was obtained/calculated.

What does this average increase mean in relation to customer usage, i.e., how does this relate to a customer that uses 800kWh per month equally throughout the day as opposed to one that uses 800kWh but mostly between 3:00pm and 8:00pm?

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Does EFCA believe that equity is higher cost than debt?

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All other things remaining unchanged, what would the net base rate increase be in this Settlement Agreement if a hypothetical capital structure of 50/50 is used in this case?

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For each rate listed in Section XVII, please discuss whether each is a totally new rate or a modification of an existing rate.

For each rate listed in Section XVII, please explain in detail how APS will advise and educate its customers of these rates.

Will EFCA be advising and educating its own customers about APS's rate options? If yes, please explain in detail when and how.

Paragraphs 17.5 and 17.6 discuss Rate Schedules R-2 and R-3, respectively. Both R-2 and R-3 are described as "three-part" rates.

- Does "three-part" refer to a basic service charge, a kWh usage charge and a kW demand charge? If yes, please explain in detail how customers will be educated on these two rate schedules, especially regarding the kW demand charge.

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Please explain in detail how Commission approval of this Settlement Agreement (especially when compared to all the contrary recommendations in EFCA's direct testimony; in particular EFCA's agreement to a \$94.624 million net base rate increase as opposed to EFCA's direct testimony recommendation for a \$107.5 million decrease) may be beneficial for each of the customer classes listed below:

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Is EFCA completely satisfied with all aspects of Appendix H? If no, please explain in detail.

Questions for All Other Parties to the APS Rate Case, Whether Signatories to the Settlement Agreement or Not:

Please provide a response to any and all questions submitted by Commissioner Bob Burns to APS, Staff, RUCO or EFCA which you believe are applicable to you and/or which you believe your responses would be beneficial to the Commission making its decision in this case.

CERTIFICATION OF SERVICE

On this 11th day of April, 2017, the foregoing document was filed with Docket Control as correspondence from Commissioner Bob Burns and copies of the following who have not consented to email were mailed on behalf of the Commissioner to the following who have not consented to email service. On this date or as soon as possible thereafter, the Commissioner's eDocket program will automatically email a link of the foregoing document to the following who have consented to email service.

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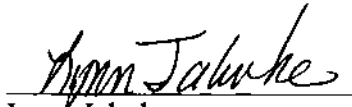
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By:

A handwritten signature in cursive script, appearing to read "Lynn Jahnke", written over a horizontal line.

Lynn Jahnke

Executive Aide to Commissioner Bob Burns